Developing A

Group Insurance Plan

For Employees of Cooperatives

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FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C.

GENERAL REPORT 17 *JUNE 1955*

FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.

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The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the service relates to problems of management, organization, policies, financing, merchandising, quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmers' cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

SUMMARY

Many farmer cooperatives already have adopted group insurance plans for the benefit of their employees. Others have become interested and are seeking information about them.

Most managers of cooperatives that have tried group insurance consider its beneficial effects well worth the cost. They say that it helps an organization attract and hold competent and experienced personnel. They also report that it encourages the employee to feel that the cooperative is interested in his personal welfare, thus bringing about a better relationship between employees and the association.

This publication is based upon a study of 40 selected group insurance plans now being used by farmer cooperatives. It discusses the characteristics of group insurance, underwriting practices, and factors affecting cost. It also reports on four ways of determining the amount of insurance to be provided for each employee.

The several different kinds of insurance available under group policies are: (1) life insurance; (2) accidental death and dismemberment; (3) sickness and accident; (4) hospital expense; (5) surgical expense; and (6) major medical.

The various forms of group insurance available provide a wide range of protection. However, the cost of the complete coverage is substantial. In many cases it is necessary to compromise between what is desired in the way of protection and what can be afforded from the standpoint of the budget.

Any cooperative with 25 or more employees can set up a group insurance plan of its own. Cooperatives with fewer than 25 employees may find it possible to participate in a plan developed by a larger marketing or purchasing federation to which they belong.

Group plans now in use by cooperatives generally provide at least $1,000 of life insurance for lower paid employees with increasing amounts for higher paid employees. The goal of many associations is to provide each employee with life insurance approximately equal to one year's salary up to a fixed maximum.

The cost of a group plan will depend first of all upon which insurance coverages are included, and secondly, upon such factors as (1) average age of the group (2) the hazards of employment in the industry and (3) the ratio of male to female employees. The exact cost for any specific group cannot be determined until these factors are known.

For an average-age group with not more than one-third female employees, working in a non-hazardous industry the initial gross premium cost per month would roughly be as follows: (1) life insurance, about 90 cents

per $1,000 of insurance; (2) accidental death and dismemberment insurance, 10 to 15 cents per $1,000 of insurance; (3) sickness and accident insurance, 8 to 10 cents per dollar of weekly benefit; (4) hospital expense insurance, about 15 to 18 cents per dollar of daily benefit; (5) surgical expense insurance, about 50 to 60 cents per employee. These are estimates based upon average costs for the group of cooperatives included in this study.

Under most group plans used by cooperatives both the employees and the cooperative contribute to the cost. Some are financed entirely by the cooperatives.

In a group plan the contract is between the insurance company and the employer. Each employee, however, is given a certificate showing just what protection he has under the master contract.

An announcement circular which briefly explains the provision of the master contract also is given to each employee at the time he joins the plan. A sample circular of this kind is shown at the end of the report.

DEVELOPING A GROUP INSURANCE PLAN FOR EMPLOYEES OF COOPERATIVES

By

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Managers and directors of farmer cooperatives realize that their associations, like other types of business, must make employment attractive if they are to be able to hire and hold capable and loyal people in their organizations.

Employee group insurance plans have been widely used by industrial and commercial organizations for a number of years as one means of making jobs more attractive and as a means of holding trained and experienced personnel. These programs have been well received by employees and group insurance is now the fastest growing form of life insurance.

The growth of group insurance has been particularly rapid in the past 15 years. This period, of course, includes the war years and the period of industrial expansion that followed. Many people believe that labor scarcity, wage ceilings, and high tax rates during those years added impetus to the trend. However, with those specific influences now less intense, there is little or no slackening of interest in group insurance on the part of either employees or management.

Many farmer cooperatives already have adopted group insurance plans for the benefit of their employees. Others have become interested in such plans and are seeking information about them.

This publication is based upon a study of 40 representative group insurance plans now being used by farmer cooperatives. It describes the provisions of various plans and explains their uses. The information is intended primarily for managers and directors of cooperatives which have not yet adopted employee group insurance. However, it will also be helpful to organizations interested in broadening present coverages.

PURPOSE OF GROUP INSURANCE

Most group insurance plans provide life insurance to aid the family of the wage earner in case of his untimely death. Some of them also provide for weekly payments to the employee during periods of unemployment due to sickness or accident. Some cover hospital and surgical benefits for the employee, or for both the employee and his dependents. Other plans are more comprehensive and include a combination of all these benefits plus additional ones.

Reasons most frequently given by cooperative managers for adopting employee group insurance plans include the following:

1. It is an effective means of encouraging employees to carry needed insurance protection they might otherwise go without.

2. It provides employees with insurance protection at a lower rate than they could obtain as individuals acting alone.

3. It encourages employees to feel that the cooperative is interested in their personal welfare and thus brings about a better relationship between employees and the association.

4. It helps free employees from worry and permits them to concentrate more fully on their jobs.

5. It substitutes a systematic and businesslike method of providing emergency assistance to stricken employees for the old "pass the hat" voluntary contribution procedure.

6. It makes jobs more attractive and helps to hold competent and loyal personnel.

About the only objection ever advanced against employee group insurance has to do with the cost of operating the plan. However, the cost can be borne in part by the employees themselves and ordinarily is. Most farmer cooperatives that have tried group insurance consider its beneficial effects well worth the cost.

CHARACTERISTICS OF GROUP INSURANCE

In a broad general sense, group insurance may be thought of as wholesale insurance, or, more accurately, insurance purchased on a wholesale basis. By insuring whole groups at one time and in a single policy, insurance companies have been able to reduce to a minimum the initial expenses of selling the insurance and also the costs of servicing, collecting premiums, and bookkeeping. As a result, premium rates quoted on group policies are substantially lower than the rates on individual policies providing the same amount of protection.

In group life insurance it is not unusual for 90 percent or more of the premium dollar to be returned in the form of death benefits and patronage dividends, leaving less than 10 percent to pay operating costs of the company. This is a very low figure when compared with the cost of handling individual policies.

Group insurance is a specialized field -- not so much from the standpoint of the type of protection offered as from the procedure by which the protection is made available. Most states have special laws pertaining to the use of group insurance. Under these laws the State Insurance Commissioner regulates the use of group insurance in his state. Fortunately there is considerable uniformity throughout all the States in this regard, thus making it possible for insurance companies to standardize their operations to a considerable degree.

Under group plans, the insurance contract is between the insurance company and the employer. Just one policy is issued for each type of coverage (life, hospitalization, surgical, or other). It is issued to

the employer. Under this contract, the employer agrees to pay the entire premium himself, or to pay part from his own funds and part from funds contributed by the employees. The insurance company agrees to indemnify employees for any losses specifically covered by the policy. Each employee is given a certificate showing just what protection he has under the master contract.

UNDERWRITING PRACTICES

Group insurance departs radically from some practices long used in writing life insurance. An outstanding example is the elimination of the physical examination as a prerequisite to obtaining insurance.

In issuing individual policies insurance companies usually require the applicant to pass a physical examination. This is to eliminate substandard risks and give the company some assurance that its total business will more nearly represent an average cross section of the whole population, upon which mortality tables are based. The need for such physical examinations is based upon the assumption that people in poor health are much more likely to buy insurance, if permitted, than people in good health.

The solution to this problem in group insurance is to cover as nearly as possible the whole group of employees in a given business enterprise. It is assumed that the group as a whole will represent an average or normal risk, and premium rates are computed on this basis. Actually this probably gives a slightly better than average cross section since people in extremely poor health are seldom employed. In other words new employees coming into an organization and into the insurance plan would be in reasonably good health.

The amount of insurance provided each employee must be determined by a method that precludes individual selection. Otherwise, older employees and those in poor health might select large amounts of insurance, while younger employees and those in good health might be more inclined to select small amounts. This would destroy the concept of average risk -- one of the fundamental principles upon which group insurance is based.

Certain underwriting practices used by insurance companies to produce an average risk, and which are mandatory in most states with group insurance laws, are as follows:

1. Insure only employed groups.

2. Cover only persons who are actively at work when the insurance becomes effective. (Others can be covered if and when they return to work).

3. Issue no policy unless at least 75 percent of all employees in the group covered participate in the plan.

4. Insure no group of fewer than 25 employees.

5. Base the amount of insurance provided under the policy upon some plan precluding individual selection by either employees or employer.

6. Require any employee entering the plan more than 90 days after it is first made available to present evidence of insurability. If the plan includes coverages other than group life, the enrollment period sometimes is limited to 30 days.

FACTORS AFFECTING COST

The employee ordinarily pays considerably less for group insurance than he would have to pay for comparable protection from other sources. This is due in part to the somewhat lower premium rates, and in part to the fact that the employer ordinarily bears a part of the cost. The total cost of any group plan--including both the employee's and the association's contributions--will depend first of all on which of the coverages (life, accident, hospital, surgical, or other) are included in the plan. It depends also on such factors as (1) average age of the group, (2) hazards of employment in the industry, and (3) ratio of male to female employees.

The size of the group to be covered may also affect the cost of group life insurance. For example, a group with less than $75,000 total insurance ordinarily takes a higher premium rate than groups with larger amounts. This is because it costs the company less per thousand to handle insurance in large volume.

The premium cost for group insurance will vary from one group to another depending on the considerations mentioned. It is not possible to state exactly what the premium cost would be for any specific group until all the factors are known. However, for an average age group, with about one-third female employees, working in a non-hazardous industry, the initial gross premium costs a month would roughly be as follows: (1) life insurance, about 90 cents per $1,000 of insurance; (2) accidental death and dismemberment insurance, 10 to 15 cents per $1,000 of insurance; (3) accident and sickness insurance, 8 to 10 cents per dollar of weekly benefit; (4) hospital expense insurance, about 15 to 18 cents per dollar of daily benefit; (5) surgical operation insurance, about 50 cents per employee for a plan providing $150 maximum payments for major operations, and possibly 60 cents for a plan providing maximum payments of $200.

As indicated previously, the cost of group insurance may be borne jointly by the cooperative and the employees, or it may be borne entirely by the cooperative.

Ordinarily, the entire cost of group life insurance cannot be shifted to the employees. The laws of most states require the employer to make some contribution to the cost of a group plan. When the employer and the employees both contribute to the cost of the insurance, the plan is called contributory. When the employer pays all the cost, it is called non-contributory.

The contributory plan has several advantages. Many cooperative managers feel that employees appreciate the value of the insurance more if they contribute something to its cost. Also, it costs the association less. This makes it possible to provide employees with a substantial amount of insurance without burdening either them or the association.

Among cooperatives the contributory plan is used most frequently, with the employees paying about half the cost while the association pays the balance. For life insurance, the employees' share frequently is set at 60 cents per month per $1,000 of insurance. This exceeds one-half of the cost in most instances. Once established, the employees' monthly payments ordinarily remain fixed. The association's share of the cost may vary slightly from time to time if the average age of the group changes or other factors cause the premium rate to go up or down.

When part of the cost is borne by the employees, the cooperative usually assumes the responsibility of collecting this part of the premium for the insurance company. Almost universally these collections are made through payroll deductions authorized by employees at the time they sign up for the insurance. The money thus collected, together with the association's share, is remitted to the insurance company periodically.

WHO WILL BE COVERED

In setting up a group plan it is possible for cooperatives to limit coverage to specific groups of employees, such as all salaried workers or all employees working in a given plant. However, the coverage should be offered to all employees in that group. It is not feasible to select employees more or less at random from among the working force and provide an insurance plan for these selected employees.

Under most group plans used by farmer cooperatives, all full-time employees become eligible for insurance after three months' continuous service. The purpose of this short waiting period is to eliminate temporary employees and "floaters."

If the association bears the whole cost of the plan, eligible employees are covered automatically. It is reasonable to assume that all employees will be glad to have the insurance if they are not asked to contribute anything toward its cost.

If the employees share the cost, participation usually is voluntary. An eligible employee may participate or not, as he sees fit. Ordinarily full-time employees may join the plan simply by signing an application card and authorizing payroll deductions for their share of the premium. Insurance companies writing group insurance require that at least 75 percent of the eligible employees sign up for the plan before it becomes effective. In most states this is a legal requirement.

DETERMINING THE AMOUNT OF INSURANCE

One of the problems involved in setting up a group insurance plan is determining the amount of insurance to be provided for each employee. As previously explained, most insurance companies and many state laws require a fixed plan that eliminates individual selection of amounts.

Several methods can be used in making this determination. Four of these are discussed briefly below:

1. Same for Each Employee

Some cooperatives may wish to offer the same amount of insurance to each employee regardless of position held, salary received, or length of service with the organization. This is a very simple plan and is easy to operate. It eliminates much mathematical calculation and bookkeeping. It would be most suitable for associations with a small number of employees and little spread in salary range.

For most cooperatives, particularly those with considerable spread in salary range, this plan would have some disadvantages. The amount of insurance suitable for one employee might not be satisfactory for another. For example, under such a plan the janitor would be entitled to the same amount of insurance as the general manager if both participated in the plan.

2. Based on Salary

The amount of insurance may be based on the salary or earnings received. Under this plan, the employees are divided into 4, 5 or sometimes more groups according to salary. The amount of insurance varies, the higher salaried groups being offered more insurance than the lower salaried groups, thus the amount of insurance can be adjusted to the various employees' needs and their ability to pay. This probably is the most desirable plan--at least it is the one used most frequently by farmer cooperatives.

3. Based on Position Held

The amount of insurance offered to each employee may be based upon the position he holds with the organization. A schedule for example, might be as follows:

Type of employee	Amount of life insurance
Officers and executives	$5,000
Foreman and supervisors	3,000
All other employees	2,000

This plan is particularly well adapted for employees paid on piece work or commission basis. In such cases there is no way to determine in advance what any given employee's earnings for the year will amount to. This makes it difficult to use the salary method.

4. Based on Length of Service

Under this plan the amount of insurance would be determined by the length of employee's service. For example, the plan might provide $1,000 for the first year of service plus $500 for each additional year until a certain maximum has been reached. This plan is not generally recommended, particularly if the employees are contributing toward the cost, because over a long period of time it results in a substantial volume of insurance and high premium payments for the older employees. Also no difference is made between employees earning high salaries and those earning low salaries.

SELECTING TYPES OF COVERAGE

Several types of coverage are available under group policies: (1) life insurance; (2) insurance providing benefits in case of dismemberment or death by accidental means; (3) accident and health insurance; (4) hospital expense insurance; (5) surgical operation insurance; and (6) catastrophe or major medical expense insurance.

From this it can be seen that a wide range of protection can be provided for employees. However, the cost of such complete coverage would be substantial. In many cases it is necessary to compromise between what is desired in the way of protection and what can be afforded from the standpoint of the budget.

An insurance plan for any specific group can be made up of one or any combination of coverages listed. It need not include all of them. Farmer cooperatives usually include group life insurance and one or more of the other coverages in their plan. Some do include them all.

The following discussions will give some idea of the nature of the various coverages, their uses, and factors affecting their cost.

1. Group Life Insurance

Life insurance provided under a group plan is annually renewable term insurance. For the employee it has no cash surrender value, no paid up value, and no loan value. These are factors which contribute to its low cost. Once a plan goes into effect the cooperative expects that it will be continued on a permanent basis. However, it usually reserves the right to cancel the plan at any time if such action becomes necessary or desirable.

Like practically all other kinds of life insurance, it is intended to provide some financial protection for an employee's dependents in case of his death. If an insured employee dies, the insurance company pays

the full face value of the policy to the beneficiary designated in the policy. Usually this is paid in a lump sum.

Some group life insurance policies allow the beneficiary to choose another method of settlement instead of a lump sum payment. A specified number of installment payments is the most common option provided. This is like continuing the employee's salary, or a part of it, to his beneficiary for a period after his death.

The amount of life insurance to be made available to each employee is a matter for the cooperative to determine when the plan is being formulated. Cooperative plans usually provide at least $1,000 for lower paid employees with increasing amounts for higher paid employees. Most state laws limit the amount of group life insurance that can be made available to an individual. In addition, insurance companies usually set a maximum amount depending on the size of the group covered.

The goal of many associations is to provide each employee with life insurance approximately equal to one year's salary. It would be too costly from the standpoint of bookkeeping and accounting to match each employee's salary exactly with a like amount of insurance. The usual procedure, therefore, is to divide the employees into 4 or 5 groups according to salary and provide the same amount of insurance for each employee in the group.

Table 1. - *Amount of life insurance and estimated cost by salary groups*

Annual earnings	Amount of life insurance	Estimated cost (per month)	Employee's contribution (per month)
Under $2,000	$2,000	$1.80	$1.20
$2,000 to $2,999	3,000	2.70	1.80
3,000 to 3,999	4,000	3.60	2.40
4,000 to 4,999	5,000	4.50	3.00
5,000 and over	6,000	5.40	3.60

The estimated cost of the insurance in Table 1 is based upon an average rate for the group of 90 cents per $1,000 of insurance. The actual rate for any specific group, of course, will depend upon the average age of the group and upon the hazardousness of the industry.

For a group with average age distribution, working under normal conditions in a non-hazardous industry, the gross monthly rate should be about 90 cents per $1,000 of insurance. If the group includes a large proportion of older employees or if the industry is hazardous, the average rate probably will be higher. Conversely, if the group is composed largely of relatively young employees, the premium rate will be somewhat less.

Under most contributory plans, the employee pays about 50 or 60 cents per $1,000 per month, and the association pays the balance. This, of course, is very low-cost insurance for the employee. This example, which if fairly typical, shows the initial cost to the cooperative as being 30 cents per month per $1,000 of insurance.

In many instances, premium costs may be reduced somewhat by application of dividends paid by the insurance company. Some cooperatives share these dividends with the employees on a pro rata basis. Many associations, however, use the dividends to reduce their share of the cost. They consider this fair and equitable because should the premium rate be increased for any reason, the cooperative usually bears the additional cost while the employees' contribution remains unchanged.

The factor that is most likely to increase the cost of group life insurance after the plan is established is a gradual increase in the average age of employees. This occurs most frequently with a new organization -- especially one that starts off with younger than average employees.

The life insurance provided under a group plan ordinarily ceases with the termination of employment. At least, this has been the prevailing practice in the past. This undoubtedly has been one factor in keeping the cost at a low level.

In recent years there has been some tendency to continue one-fourth or in some cases even one-half of the insurance on a permanent basis after an employee reaches retirement age and retires. Any arrangement of this nature ought to be entered into with considerable caution since it increases premium rates.

Most group policies contain a provision allowing any covered employee to convert all or part of his insurance to an individual permanent life policy if he leaves the insured group for any reason. Such conversions can be made without a physical examination. However, the policy selected must be something other than term insurance and the new premium rate will be that for the attained age at time of conversion.

2. Insurance Against Accidental Death or Dismemberment

Group insurance against death or dismemberment by accidental means ordinarily is written only as a supplemental coverage with a group life or a group disability policy. When written as a supplement to group life, it corresponds to what is generally known as "double indemnity" with dismemberment benefits added. The amount of this type of insurance provided is the same as the amount of group life insurance carried on each individual. The premium rate is reasonably low, usually not more than 10 or 15 cents a month for each $1,000 principal sum.

This type of insurance provides lump sum benefits in the event of death or dismemberment by accidental means. For each $1,000 of insurance carried the amounts payable in the event of loss are as follows:

Type of loss	Amount of benefit
Loss of life	$1,000
Loss of both hands or both feet or of one hand and one foot	1,000
Loss of the sight of both eyes	1,000
Loss of one hand or one foot and the sight of one eye	1,000
Loss of one hand or one foot or the sight of one eye	500

3. Group Accident and Health Insurance

The purpose of group accident and health insurance is to provide employees with some income during periods when they are unable to work because of sickness or injury. The need for this type of insurance depends to a considerable extent upon the sick leave policy of the cooperative. If the association has a liberal sick leave policy under which employees are kept on the payroll during fairly long periods of sickness or injury, there may be little or no need for this type of insurance. On the other hand, if the cooperative provides no sick leave for its employees, this type of insurance may be desirable.

In any event, payments under an accident and health coverage can be adjusted to sick leave benefits to avoid overlapping and duplication. If the cooperative provides sick leave of two weeks, an accident and health policy can be written to provide for benefit payments beginning with the 15th day of disability. This will reduce the cost of the policy.

Various combinations of waiting time and maximum weeks of payment can be established. The effects these have upon the cost of the plan are indicated in the following paragraphs.

Number of payments. The accident and health coverage is written to provide weekly payments for the duration of each absence because of illness or accident, up to a maximum number of weeks as stated in the policy. Most of the group plans used by farmer cooperatives are for a maximum of 13 weeks, though some of the newer ones provide a maximum of 26 weeks or even more. The more liberal plans, of course, require higher premium rates. The following rates are fairly typical for a plan with a waiting period of one week and for a group of employees about 1/3 female.

Maximum number of weeks	Premium rate per dollar of weekly benefit
13	7.4 cents
26	9.1 cents
52	11.0 cents

Female employees. Experience has shown that female employees lose more days of work because of illness than do male employees. Premium rates of group policies are adjusted for this factor. In other words, the premium rate increases as the proportion of females in the group increases. Table 2 which is fairly typical for a 26-week plan - with 7 days waiting period, shows the average monthly cost for selected groups.

Table 2. - *Estimated premium cost for groups with varying proportion of female employees*

Percent of female employees	Premium rate per dollar of weekly benefit	
	Without maternity benefits	With maternity benefits
(Percent)	*(Cents)*	*(Cents)*
Less than 20	8.1	8.1
40 to 50	9.5	11.4
60 to 70	10.3	13.0

Waiting period. The accident and health coverage could be written to provide for payments to begin on the very first day of disability but this would be very expensive. The cost of insurance can be reduced materially by requiring a waiting period of 3, 7, or even 14 days before payments begin. The longer waiting periods result in lower premium costs.

Moreover, illnesses of short duration usually do not present a major problem for employees. Certainly sick leave with pay and insurance payments should not overlap, thus making it possible for an employee to receive double pay while away from his job.

If the cooperative does not grant any sick leave for employees, a satisfactory accident and health insurance coverage might provide for payments to start on the first day of disability due to accident and the eighth day of disability due to sickness. This combination is found in many plans used by farmer cooperatives.

The effect of various waiting periods on monthly premium rates is shown in the following tabulation, which is fairly typical for a 26-weeks plan with about 1/3 female employees.

Waiting period		Premium rate per dollar of weekly benefit
Accident	Sickness	
(Days)	*(Days*	*(Cents)*
0	3	10.8
0	7	9.1
7	7	8.5
14	14	7.4

Including maternity benefits would add about 1 1/2 cents to each of the figures.

Amount of weekly benefits. Under a group health and accident insurance plan the schedule of benefits almost always is based on salary. This is in recognition of the fact that higher paid employees need, and can afford to carry, larger amounts of insurance. Table 3 shows a typical plan of this type.

Table 3. - *Weekly benefits and estimated cost by salary groups*

Annual earnings	Accident and sickness benefits (weekly)	Estimated cost (per month)	Employee's contribution (per month)
Under $2,000	$10	$ .90	$ .45
$2,000 to $2,999	20	1.80	.90
3,000 to 3,999	30	2.70	1.35
4,000 and over	40	3.60	1.80

This table contemplates that the cost will be divided about 50-50 between the employee and the employer. The division, of course, can be made on any basis that is agreed upon by the association and its employees. As to the amount of benefits, most cooperatives do not try to provide benefits of more than one-half of weekly wages with a maximum of $40.

Group accident and health insurance plans are almost always non-occupational. This means that benefits will be paid only if the disabled employee is not eligible for benefits under any workmen's compensation act or occupational disease law. By limiting the coverage in this manner, insurance can be provided at a substantially lower cost than would otherwise be the case. This is a reasonable limitation since group health and accident insurance is not intended as a substitute for workmen's compensation insurance. With this one exception the benefits under the group insurance plan are almost entirely free from restrictions so long as the employee is under the treatment of a legally licensed physician or surgeon.

4. Group Hospital Expense Insurance

Hospital expense insurance, like all other types of insurance, is a means of shifting an unexpected financial burden from the shoulders of an individual to the shoulders of a group where it can be borne more easily. In another sense, group hospital expense insurance provides a method whereby an individual can budget his hospital costs. On the average, each individual can expect to go to a hospital at least once during his lifetime. Usually it is less difficult for an employed person to pay a few cents each month as insurance premiums than to meet the full cost of a hospital bill "head on."

This form of coverage also is usually non-occupational, the term non-occupational being defined in the same way as for group accident and health insurance. As a rule, the only requirements for benefits are that the hospitalization must be recommended and approved by a legally

licensed physician or surgeon, and must last at least 18 consecutive hours. Benefits under the hospital coverage can be arranged to suit the needs of each group and can be revised from time to time, if necessary, to keep them in line with changing hospital costs.

Previous to 1950 benefits provided by cooperatives under group hospital expense insurance usually ranged from $3 to $5 a day with a maximum of about 31 days for each disability. This was for room and board. In addition, most plans provided that the insured should be reimbursed for the actual cost of drugs and other necessary hospital supplies and services, including special laboratory service and use of operating room, up to a maximum of five times the daily benefit.

Because of increased costs of hospitalization these benefits are now inadequate in many areas. The trend in recent years has been toward more liberal hospitalization benefits. Today (1955) plans providing daily benefits of $8 to $10 and extra expense up to 10 times the daily benefit are not uncommon. In some cases the 31-day limitation also has been increased. Maternity benefits, if included, usually are limited to 14 days.

The amount of benefits provided in any particular plan should have some relationship to actual hospital costs in the area served. In large metropolitan areas the benefits will need to be greater than in small towns and rural areas. Many associations do not attempt to provide benefits that will meet hospital costs in full. Their aim is to provide enough benefits to pay a substantial part of a hospital bill and thus take the sting out of it.

Factors determining the cost of any plan are: (1) the amount of daily benefit; (2) the maximum number of days for which benefits would be paid; (3) the amount provided for additional hospital expense; (4) the proportion of female employees; (5) whether or not maternity benefits are included; and (6) the hazardousness of the industry.

The monthly premium rate of a 31-day plan for a group comprised of about one-third female and two-thirds male employees might be expected to average about 18 cents per dollar of daily benefit. For example, if the plan provided $8 a day - not to exceed 31 days in any one illness - the monthly cost per employee would be about $1.46.

Coverage for dependents. A group hospitalization plan can be set up to cover not only employees but also their dependents. This, of course, will add substantially to the cost. Even so, many employees consider this a valuable feature of the plan and are willing to contribute a portion -- or in some cases even all--of the added cost.

Various arrangements can be worked out for sharing the cost of a hospitalization plan. Some cooperatives contribute to the cost of both the employee benefits and the dependent benefits. Other cooperatives pay the full cost of employee benefits while the employees pay the full cost

of dependent benefits. Any arrangement satisfactory to both the employer and the employees can be used.

Some cooperatives make hospital benefits available through a local hospital plan already in operation in the community. These non-profit hospital plans are quite generally available throughout the United States.

There is a great deal of variation in the amounts and types of service provided under these local hospitalization plans. Rates for subscribers differ according to the locality, the type of service furnished, the number of dependents covered, and certain other factors. Room and board on a semi-private level, general nursing care, use of operating and delivery room, specified laboratory services, and routine medications and dressings are usually included. Full service is furnished in most plans for at least 21 to 30 days in any one year. Some plans provide ward service at a lower rate. Many plans allow reduced benefits if longer periods of hospital service are required. Practically all of them provide full or partial benefits for the subscriber, spouse, and children.

5. Group Surgical Operation Insurance

Group hospital expense insurance ordinarily does not cover the cost of surgical operations. Surgical benefits if included in the plan are provided under a separate coverage known as group surgical operation insurance. This form of insurance usually is issued only in conjunction with hospital expense insurance and is not ordinarily included in any plan which does not provide hospital benefits.

The inclusion of surgical benefits helps to complete the protection and gives a plan which more fully covers the possible needs of the employees. Surgery is required in approximately half of all hospital cases. Because of the cost involved, needed surgical attention is sometimes postponed, resulting in permanent impairment from causes which might have been corrected by a prompt operation.

Surgical operation insurance usually provides for the reimbursement of actual expense, with a maximum amount for each operation as set forth in a schedule included in the policy.

The cost of this type of insurance for any particular group will depend upon the schedule of payments provided and the percentage of female employees. Premium rates for group plans with maximum payment of $150 for an operation may be expected to run about 50 cents per insured employee per month. For plans providing maximum payment of $200, premium rates would be around 60 cents per month. The trend is toward the use of the $200 schedule.

These rates would be for non-occupational type coverage and for groups with less than 30 percent female employees. As in the case of accident and health and of hospital expense coverages, the term "non-occupational"

means any operation for which the employee was not entitled to benefits under workmen's compensation acts or occupational disease laws.

Some of the more common types of operations, with the maximum payments usually specified in a $150 maximum plan, are:

Surgical operation	Maximum payment
Appendectomy	$100
Fractured forearm	25
Fractured thigh	50
Hernia, single	50
Hernia, double	75
Reduction of dislocated wrist	10
Removal of kidney	150
Tonsillectomy	25
Adenectomy	20
Fractured nose	10
Fractured ribs	10
Fractured wrist	25
Removal of eye	100
Amputation of hand	50
Amputation of finger	10
Amputation of leg	100
Blood transfusion	25
Incision of carbuncle	10
Removal of portion of lung	125
Suturing surface wound	10
Removal of vertebra	150

(The complete list is much longer than this. It includes 100 or more operations).

Surgical benefits for an employee's wife and children can be included in the group insurance plan for about $2 per month additional premiums. If there are no children the rate would be about $1.50 more. This would be added to the employee's own premium of 50 to 60 cents. These rates can be reduced somewhat by omitting obstetrical benefits, but this ordinarily is not done. Obstetrical benefits usually are available after a waiting period of 9 months.

As mentioned previously, group surgical insurance ordinarily is not included in any plan that does not provide hospital benefits. If hospital benefits are provided under a community hospitalization plan, surgical benefits often are provided through a similar organization.

Benefits and premium rates of such plans vary considerably from area to area. They should be examined carefully before a final decision is made.

6. Major Medical Expense Insurance

A new development in group insurance is a coverage known as catastrophe or major medical expense insurance. As the name implies, this coverage is intended to help meet the cost of prolonged hospitalization and of serious illnesses where the total costs far exceed the benefits available under other parts of the group plan.

Benefits provided under the usual hospital and surgical coverages (previously discussed) will take care of most illnesses and most accidents. However, in the case of serious accidents and such illnesses as polio, rheumatic fever, cancer, tuberculosis, heart diseases, and others, hospital confinement may be required for many months and surgical costs may amount to a high figure. Insurance coverages that provide a maximum of 31 days - or even of 70 days - hospitalization and a maximum of $150 to $200 for surgical costs may fall far short of paying the bill. It is these cases that major medical expense insurance is intended to cover.

A major medical policy usually is written with a $300 to $500 deductible provision and with a maximum of $2,000 to $5,000. When hospital and surgical cost for any one disability exceed the deductible amount this coverage will pay 75 percent of the additional cost up to the maximum provided in the policy.

It is the deductible feature and the 75 percent feature that keep the cost of this type of insurance within reasonable bounds. A deductible of even $500 is not a serious handicap when this coverage is added to a plan which provides 31 days or more of hospitalization and $150 or more surgical benefits. Since major medical expense insurance pays only 75 percent of the cost above the deductible, the disabled person would be more likely to leave the hospital as soon as possible and to hold other medical expenses to a minimum.

The premium cost of major medical expense insurance will depend upon the amount of the deductible, the maximum amount of insurance provided, the average age of employees, and certain other factors. For example, a deductible of $500 instead of $300 might be expected to decrease the cost by about one-third, while a maximum of $5,000 instead of $3,000 might increase the cost by at least 10 percent. Age has about the same effect on the cost of major medical insurance as it has on the cost of life insurance. It costs several times as much to provide this type of insurance for a 65-year-old man as for a man 35.

As stated previously, major medical insurance is a new coverage. There is considerable variation, in both premium costs and benefits, in the types of contracts offered by different companies. As more experience is accumulated with this type of insurance, undoubtedly there will be more uniformity in the types of contracts offered.

As yet, not many cooperative plans include this coverage. However, indications are that it will be given serious consideration as new plans

are adopted or as older plans are revised. With a $500 deductible and a $3,000 maximum it would add greatly to the usefulness of many existing group plans.

CHOOSING AN UNDERWRITER

After a decision has been made at least as to the general type of plan that would be feasible from the standpoint of needs and cost, it will be time to consider the selection of an underwriter. Most of the large life insurance companies are now writing group insurance, and have set up "group" departments to handle this type of contract.

How do you choose a company? To begin with, it usually is a good idea to obtain proposals from three or four companies with substantial experience in the group field.

Since the purpose of obtaining the proposals is to enable you to make comparisons, it is essential that they all be based upon the same type of plan. This is why it is desirable to reach some conclusion as to the kind of plan wanted before approaching the insurance companies. In order to prepare a proposal the insurance company representative will need information as to the number, age, and sex of employees. He will also want to know something of the types of work performed by the employees.

In choosing between the companies, initial cost should not be the only consideration. Dividends, of course, should be taken into consideration, as should the company's policy and practice of adjusting premium rates at the end of each policy year. The financial stability and reputation of the company would be factors.

The rate of dividend that any company can pay will depend upon three factors - claims, administrative expense, and amount of reserves set aside for contingencies. It is rather difficult for the layman to compare these items, company by company. Past history on dividend payments or retrospective rate adjustments reflect good management, operating efficiency, and the practice of the company in sharing its savings with policyholders.

It is often quite difficult to make comparisons between plans and companies and give the proper evaluation. Unless the cooperative has some one on its staff who understands insurance and insurance contracts, it may wish to employ the services of a professional insurance consultant to guide it through the process of developing a plan and selecting an underwriter. Group insurance is important enough to justify this additional expense.

PRESENTING THE PLAN TO YOUR EMPLOYEES

If the association proposes to pay the entire cost of the group insurance plan, there will be no selling job to be done. It can be assumed that the plan will be welcomed and gratefully received by all employees. This

would be true even though the employees did not fully understand the technical procedure by which insurance protection was being provided to them.

On the other hand, if the employees are expected to share in the cost of the plan, it will be highly desirable that it be carefully explained to them. They will be interested in knowing not only what benefits they are to receive, but also something of the procedure by which the benefits are to be provided. Certainly they will want to know what their share of the cost will amount to.

This means that there will be an educational job to be done at the time the plan is initiated. Any method customarily used in getting information to employees, such as meetings or employee bulletins, can be used in this case.

In any event it is highly important that some one thoroughly familiar with the plan be available to answer questions that employees invariably will have. The insurance company or the agency through which the plan is being written undoubtedly can be of considerable help in this connection.

Probably the most important feature in the program of presenting the plan to the employees and securing their cooperation and participation is an official announcement circular describing the plan in considerable detail. The insurance company underwriting the plan can be of much help in the preparation of this pamphlet.

The announcement circular can take almost any form desired so long as it contains a clear explanation of the various features of the plan, the benefits provided, and the cost.

The following sample circular shows the type of information ordinarily included in such an announcement. It also summarizes and helps to crystalize much of the discussion in the preceding pages.

(Sample Circular)

Group Insurance Plan

The Twin-County Farmers Cooperative Association has developed a group insurance plan for the benefit of its employees. The plan is a voluntary one and present employees may participate or not as they wish. It is expected, however, that most employees will want to participate.

The plan is underwritten by one of the larger life insurance companies and provides five types of coverages as shown in Table 4.

Table 4. - *Schedule of insurance - benefits and cost by salary groups*

Salary classification	Life insurance	Accidental death and dismemberment principal sum	Weekly sickness and accident benefit	Daily hospital benefit		Maximum surgical fee		Weekly contribution		
				Employee	Dependent	Employee	Dependent	Employee with no dependents	Employe with one dependent	Employee with two or more dependents
Over $5,000	$5,000	$5,000	$40	$8	$5	$200	$100	$1.50	$1.80	$2.00
$4,000 to $4,999	4,000	4,000	30	8	5	200	100	1.20	1.50	1.70
$3,000 to $3,999	3,000	3,000	20	7	5	200	100	.90	1.20	1.40
$2,000 to $2,999	2,000	2,000	20	7	5	200	100	.70	1.00	1.20
Under $2,000	1,000	1,000	10	7	5	200	100	.50	.80	1.00

The complete plan will become effective when at least 75 percent of the eligible employees make application for insurance.

Each employee's contribution toward the cost of this insurance will be deducted weekly from his earnings. In addition, the cooperative will pay a substantial part of the premium.

Eligibility

All full-time employees who are actively working will be eligible to apply for insurance on the effective date of the plan. Employees who are away from work on that day will be eligible to apply as soon as they return to active duty.

Employees hired after the plan becomes effective may make application after three months of continuous active service.

Life Insurance

The life insurance is payable in event of death at any time or place from any cause, except suicide within the first two years. Payment will be made in a lump sum or in installments to the beneficiary designated by the employee. The beneficiary may be changed at any time.

Group life insurance ceases upon termination of employment. However, by making application to the insurance company within thirty-one days following the date on which employment terminates, the employee may convert his group life insurance to an individual policy on any regular whole life or endowment plan. This individual policy will be issued without medical examination at the insurance company's regular rates for the attained age at the time of conversion.

Accidental Death and Dismemberment Insurance

The accidental death and dismemberment insurance provides benefits for the accidental loss of life, limbs, and sight, including losses resulting from occupational accidents.

The full principal sum to which an employee is entitled will be paid for accidental loss of life, both hands, both feet, one hand and one foot, one hand and the sight of one eye, one foot and the sight of one eye, or the sight of both eyes. One-half the principal sum will be paid for accidental loss of one hand, one foot, or the sight of one eye.

These payments will be made directly to the employee, if living; otherwise to his beneficiary.

Sickness and Accident Benefits

The weekly indemnity shown in Table 4 is payable to any employee while he is disabled and prevented from working as the result of a non-occupational accident or a disease for which benefits are not payable under a workmen's compensation law.

The weekly benefit to which the employee is entitled will commence on the first day of disability resulting from accident or on the eighth day of disability resulting from disease. It will be payable for a maximum period of 13 weeks for any one disability.

Up to six weeks benefits will be paid for any one pregnancy, including childbirth or miscarriage. However, no such maternity benefits will be payable on account of a pregnancy which results in a childbirth or miscarriage within nine months following the date the employee becomes insured.

Payment will be made for as many separate and distinct periods of disability as may occur, except that if the employee is age 60 or over, benefits will not be paid for more than 13 weeks during any calendar year.

Successive periods of disability separated by less than two weeks of active work on full time will be considered one period of disability, unless the subsequent disability is due to an injury or sickness entirely unrelated to the causes of the previous disability and commences after return to active work on full time.

It is not necessary for an employee to be confined to his home to collect benefits, but he must be under the care of a doctor during the period of disability.

Hospital Benefits for Employees

The plan pays a daily benefit for room and board while the employee is confined in a legally constituted hospital. (See Table 4). To qualify the employee must be under the care of a doctor for at least 18 hours as a result of a non-occupational accident or a disease for which benefits are not payable under a workmen's compensation law. These

benefits are payable for a maximum period of 31 days during any one continuous period of disability.

If hospital confinement is due to pregnancy, the maximum period of payment is fourteen days. In the event of pregnancy, benefits are payable if the employee goes to the hospital before termination of insurance or within nine months thereafter. However, no benefits will be payable on account of pregnancy if the hospital confinement commences less than nine months after the date the employee becomes insured.

The plan also pays for other hospital charges up to an aggregate total for any one disability of ten times the rate of daily benefit.

Surgical Benefits for Employees

The plan pays a surgical benefit for any operation resulting from a non-occupational accident or a disease for which benefits are not payable under a workmen's compensation law. The amount of payment for a particular operation will be that shown in the "Schedule of Operations" in the certificate each employee will receive, or the actual charge by the surgeon whichever is less. These benefits are payable whether the operation is performed in a hospital, in a doctor's office, or elsewhere.

In the event that several operations are required, payment will be made for each, but not more than $200 will be paid for all operations during any one continuous period of disability.

Benefits are payable for obstetrical operations if they are performed before termination of insurance or within nine months thereafter. However, no benefits will be payable on account of obstetrical operations when the delivery or other operation takes place within nine months of the date the employee becomes insured.

Benefits for Dependents

Dependents eligible for hospital and surgical benefits include the wife, dependent husband, and unmarried children under 18 years of age.

Hospital benefits. The plan pays the amount charged by the hospital for room and board up to $5 per day but not to exceed 31 days in any one illness. In maternity cases benefits will be limited to 14 days. The plan also pays up to $50 for all charges made by the hospital in addition to room and board during any one period of disability.

Surgical benefits. The plan also provides surgical benefits for dependents. The maximum amount of payments for a particular operation will be one-half of the amount shown in the tabulation on page 15, or the actual charge made by the surgeon, if less. These surgical benefits are payable whether the operation is performed in a hospital, the doctors office or elsewhere.

Insurance Certificate

The insurance company will issue to each insured employee an individual certificate describing the benefits of the plan.